

Fall 2013

Tax and licensing systems replacement project underway

Thanks to legislative appropriation this year, Revenue has begun the first phase of a six-year project to replace its Core Tax and Business Licensing systems. Both systems were built with 1970s' technology and have become expensive and difficult to maintain, operate and update. This project also supports the future creation of a one-stop Web portal for taxpayers to interact with state licensing and tax collection agencies.

Revenue has chosen to pursue commercial, off-the-shelf software products as the preferred solution. The agency plans to select a vendor in early 2014.

Both systems provide critical services to the state, businesses and local governments. The Business Licensing Service supports 56 cities, 10 state agencies and is used by thousands of businesses, processing more than 500,000 renewals and applications each year. The 12 systems that comprise the Core Tax system help Revenue administer and collect 60 different taxes, resulting in more than \$18 billion in local and state government taxes collected annually.

Fee increase to support Business Licensing Service improvements

The Department recently adopted an increase in the license fees collected for business applications and renewals, which will be effective October 1st:

- Application Fee - from \$15 to \$19
- Renewal Fee - from \$9 to \$11

The Business Licensing Service is self-funded. The fees charged for applications and renewals pay for its operations. The fee increase was authorized by SB 5034 to help fund long-needed improvements to the system and supports the long-term sustainability of the Business Licensing Service.

Implementation of the estate and transfer tax changes

House Bill 2075 passed late in the session addressed the impacts of the recent *Bracken* state Supreme Court decision that could have resulted in the loss of \$160 million in state revenues and estate tax refunds. Revenue is working to implement the legislation by updating three existing rules to reflect the increased estate tax rates and the annual adjustment to the Washington estate tax threshold. Additionally, a new rule is being developed to clarify the administration of the new family-owned business interest deduction for estate tax.

E-File online amended returns saves time, resources

Revenue released a new online tool in May 2013 that lets businesses amend their filed state excise tax returns electronically and saves taxpayers and the agency both time and resources. The service has been welcomed by taxpayers, who filed over 10,000 amended returns between May 13 and August 13.

(E-file continued)

Revenue's E-File system has allowed taxpayers to file returns online since 1998, but amended returns still had to be filed in paper form. Many taxpayers had requested the ability to file amended returns online. Besides providing an easier way to amend returns, the system also allows taxpayers to automatically check for errors, calculate the tax difference and submit an e-payment if additional tax is due.

For Revenue, the system has streamlined the review process and dramatically decreased the amount of time – from 17 minutes to 7 minutes -- spent on each amended return. It also automatically routes the items directly to staff work queues.

Revenue's role in I-502 implementation

The Department is part of a multi-agency team working to implement I-502. Revenue is responsible for collecting sales tax and business and occupation tax on recreational marijuana sales. It also will begin accepting applications in mid November for a business license to produce, process or retail recreational marijuana.

Revenue anticipates handling higher volumes of cash at its field offices, as banks are currently unable to offer accounts to businesses related to marijuana. This already has led to changes in how the Department staff handle large cash transactions.

Reseller Permits renewal process beginning

With the passage of Senate Bill 6173 during the 2009 legislative session, the Department of Revenue replaced self-issued resale certificates with agency-issued reseller permits. After January 1, 2010, businesses making purchases for resale must use a resale permit to purchase items without paying sales tax.

Most reseller permits are valid for four years, and approximately 129,000 will expire at the end of 2013. The Department has established a process to automatically renew expiring permits for businesses that qualify for renewal, but as many as 71,000 businesses may not meet the criteria qualify for renewal.

To be automatically renewed, a business must:

- Have an active tax registration account; **and**
- Have reported gross income on tax returns covering a monthly or quarterly period during the last six months or, if the business reports on an annual basis, on the immediately preceding annual tax return; **and**
- At least 5 percent of the business' gross income during the last 12 months must have been reported under a retailing, wholesaling, or manufacturing B&O tax classification.
- For contractors, at least 25 percent of the business's material and labor purchases in the preceding 24 months must have been for retail and wholesale construction activities, based on amounts reported on the application.

These are the same criteria for issuance of a reseller permit, meaning many of the 71,000 businesses that don't qualify for auto renewal may also be ineligible even if they reapply.

(Reseller Permits cont.)

Electronic and paper renewal notices will be sent to taxpayers between October 1 and October 11, 2013. If a business reapplies and is denied, it can appeal Revenue's decision.

Taxpayers who do not have a reseller permit are still able to take a deduction on their tax return for the sales tax they paid on items purchased for resale.

Retail sales, retail trade up in first quarter of 2013

In a sign that the state's economy may be on the rebound, taxable retail sales were up 8 percent to \$26 billion in the first quarter of 2013 as compared to the same period last year. Retail trade also increased by 8.2 percent compared to the first quarter of 2012.

Retail trade is a subset of total taxable retail sales that includes retailers and excludes services and construction.

Taxable sales rose in many of the state's major industries:

- Construction – 16.9 percent to \$4 billion
- Building materials, garden equipment and supplies – 14.2 percent to \$1 billion
- New and used car sales – 11.6 percent to \$2.3 billion
- General merchandise stores – 7.1 percent to \$2.3 billion
- Accommodations and food services – 4.7 percent to \$2.9 billion

Total sales have nearly recovered to first-quarter 2008 levels, when they last exceeded \$26 billion.

Most counties showed gains in taxable retail sales during this year's first quarter. King County was up 7.6 percent; Spokane County increased 6.6 percent; Clark County increased by 7.8 percent; and Whatcom County was up 5.7 percent. The biggest gains for the state's most populous counties were in Pierce and Snohomish counties, with Pierce experiencing an 11 percent increase (to \$2.8 billion) in total retail sales and Snohomish gaining 10.2 percent (to \$2.5 billion). Taxable retail sales dipped in several state counties, including Klickitat by 4.4 percent, Mason by 3.7 percent and Lincoln by 10.6 percent.

(Taxable retail sales continued)

First quarter taxable retail sales have steadily increased for the past three years after taking a slight dip in 2009:

2012 - \$24 billion
2011 - \$23 billion
2010 - \$22.6 billion
2009 - \$23 billion
2008 - \$26.8 billion

For complete tax statistics for taxable retail sales and retail trade by county and city, and a breakdown of sales statewide by major industry, visit <http://dor.wa.gov/Content/AboutUs/newsroom/2013/trs-q12013.aspx>.

Spirits sales, price trends a year after privatization

Private vendors continue to sell slightly more liquor than the old state liquor stores sold. From June 1, 2012 through May 31, 2013, 39.9 million liters were sold compared to 39.3 million during the same period the prior year. Prices during May 2013 averaged \$23.88 per liter compared to \$21.01 a year earlier. That is equal to prices of \$17.91 and \$15.80, respectively, for a typical 750ml bottle.

Consumer purchases were stronger from June 2012 through May 2013 while purchases by on-premise licensees (bars and restaurants) were weaker. Consumers bought 31.5 million liters compared to 29.6 million a year earlier. Bars and restaurants bought 8.4 million liters compared to 9.7 million last year.

Construction industry tax workshops

To improve compliance among construction contractors and provide information about their tax responsibilities, Revenue is sponsoring free, two-hour construction industry tax workshops throughout the state in September and October.

The workshops are aimed at making it easier to report taxes and helping contractors better understand the state taxes that apply to them.

Approximately 22,000 new construction businesses have registered with the state during the past three years.

Past construction industry workshops have been popular as a way for contractors – especially those new to running a business - to find out more about their tax obligations with the state. Revenue compliance studies and other information have shown that construction is an industry challenged by a higher-than-average rate of tax noncompliance.

During the workshop, participants will have the opportunity to ask specific questions that apply to their businesses. A full list of workshop dates and locations is on Revenue's website at <https://fortress.wa.gov/dor/efile/SecureForms/Content/WorkshopsAndEducation/AttendAWorkshop/RegisterForWorkShop.aspx?ID=214>.